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OKLAHOMA TAX COMMISSION

STATE OF OKLAHOMA

THOMAS E. KEMP, JR., Chairman
JERRY JOHNSON, Vice-Chairman
CONNIE IRBY, Secretary-Member

2501 NORTH LINCOLN BLVD.
OKLAHOMA CITY, OK 73194-0001

October 1, 2004

Honorable Brad Henry, Governor
Office of the Governor
212 State Capitol Building
Oklahoma City, OK 73105

Dear Governor Henry:

Pursuant to the provisions of Senate Concurrent Resolution No. 82 (2004), the Oklahoma Tax Commission and the Oklahoma Corporation Commission hereby submit the enclosed report of a joint study conducted on elimination of duplication in oil and gas industry reporting.

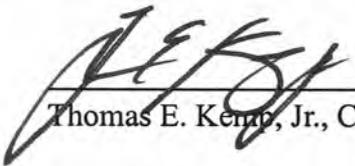
The Tax Commission and Corporation Commission held several meetings with the oil and gas industry to discuss the pros and cons of a central reporting system. The report is a product of those meetings, containing findings and recommendations, and is hereby submitted to the Governor, Speaker of the House of Representatives, President Pro Tempore of the Senate, and the Minority Leaders of the House and Senate.

Cordially,

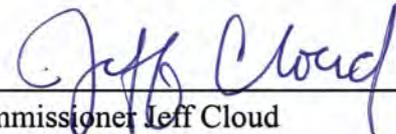
Cordially,

OKLAHOMA TAX COMMISSION

OKLAHOMA CORPORATION COMMISSION



Thomas E. Kemp, Jr., Chairman



Commissioner Jeff Cloud

CC: Honorable Larry Adair
Speaker of the House of Representatives

Honorable Cal Hobson
President Pro Tempore of the Senate

Honorable Todd Hiatt
Minority Leader of the House

Honorable James Williamson
Minority Leader of the Senate

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OFFICE OF THE
GOVERNOR

A

JOINT STUDY

ON THE CREATION OF A

CENTRAL OIL AND GAS

REPORTING SYSTEM

S.C.R. 82 (2004)

CONDUCTED BY THE:

OKLAHOMA TAX COMMISSION
and the
OKLAHOMA CORPORATION COMMISSION

SUBMITTED OCTOBER 1, 2004

Pursuant to the provisions of Senate Concurrent Resolution 82 (2004), the Oklahoma Tax Commission and the Oklahoma Corporation Commission conducted a joint study on elimination of duplication in oil and gas industry reporting and development of a joint, central system for gathering information necessary for the needs of both agencies.

In preparation of this report, the Tax Commission and Corporation Commission created a Steering Committee to oversee and give direction to the study. Each agency appointed two agency representatives and two industry representatives. The Steering Committee members were as follows:

Tax Commission Appointees:

Tom Kemp, Chairman
Larry Shropshire, Administrator
John McDougal, Enogex, Inc.
Bob Wilkinson, IBM Business Consulting

Corporation Commission Appointees:

Jeff Cloud, Commissioner
Tim Baker, Acting Director of the Oil and Gas Conservation Division
Greg Small, Chesapeake Energy
Patrick Cobb, Toklan Oil & Gas

The Steering Committee conducted several meetings which both agencies and the oil and gas industry attended and participated in discussions on the pros and cons of a central reporting system.

The following report is a product of those meetings, containing findings and recommendations, and is hereby submitted to the Governor, Speaker of the House of Representatives, President Pro Tempore of the Senate, and the Minority Leaders of the House and Senate.

CURRENT SYSTEM AND REPORTING REQUIREMENTS

Reports to the Tax Commission

The Tax Commission is responsible for collection of gross production taxes from the sale of oil and gas produced in this state. In fulfilling that responsibility, the Tax Commission registers tax remitters and provides returns for the taxpayer to report and remit these taxes. The following returns were reviewed in the study:

Gross Production Monthly Tax Report (Form 300-R)

Form 300-R is used to report and remit the gross production tax due. The report is filed on a monthly basis and the tax remitter reports the tax due by lease. The report is required to be filed by the first purchaser of the oil or gas; however the operator may file the report instead. The tax remitter must also break down the production volume reported by county.

Form 300-B

Form 300 B is a county summary form that is filed by each remitter of gross production tax. The summary form is a component of the gross production tax report that summarizes the volume, value and gross production tax remitted for oil and/or gas produced and purchased in each county.

Form 320-A

Form 320-A is a report filed by the operator of a newly completed well wherein the first sale of oil and/or gas is imminent. The information provided on the 320-A includes well name, API number, lease legal description, producing formation, well classification and purchaser information. The key function of the 320-A form is the assignment of the OTC production unit number (PUN), which is the lease identifier, used in the reporting of gross production tax.

Form 320-C

Form 320-C is a report filed by the operator of an existing lease notifying the OTC that a change has occurred in the lease status, such as a change of operator, formation, legal description, plugging, or a change more specific to the remittance of gross production tax, such as a change of purchaser.

Form 320-U

Form 320-U is a report filed by operators of unitized properties who incorporate secondary and tertiary methods of recovery.

Reports to the Corporation Commission

The Corporation Commission is responsible for the regulation of activities associated with the exploration and production of oil and gas. In fulfilling that responsibility, the Commission requires the registration of oil and gas wells and the reporting of volumes produced. The following reports and forms were reviewed in the study:

Form 1004/1005

These two forms are used by the Commission to receive reports on the production of oil and gas. Form 1004 is filed by persons responsible for operating the required gas meter for each well showing the amount of gas that passed through the meter. Form 1005 is filed by purchasers and/or transporters of oil showing the taking of oil from leases.

Form 1002A

Operators file a complete well record on Form 1002A after completion of operations to drill, recomplete, or re-enter a well, or to convert a well to injection or disposal.

Form 1003

Form 1003 is to be completed by the owner or operator of a well that is plugged. The form is to be submitted to the Corporation Commission within 30 days of plugging the well.

Form 1073

Form 1073 is filed by new operators to notify the Corporation Commission of change of operator of any oil, gas, injection or disposal well.

Duplicate Reporting by the Oil and Gas Industry

A review of the reports listed above identified areas wherein the oil and gas industry reports the same information to the Tax Commission and the Corporation Commission. A review of the duplicated elements reported is provided below and on the following pages:

OCC Form 1002A and OTC Form 320A share the following elements:

- Entity Name
- Product Class
- Date of First Production
- Lease Name
- Spacing
- Increased Density Order Number

Formations
County Name
Spacing Order Number
OTC Production Unit Number
API Number

OCC Form 1073 and OTC Form 320C share the following elements:

Current Operator Name
Current Operator OCC Number
Current Well Name
New Operator Address
New Operator Fax Number
New Operator Name
New Operator OCC Number
New Operator Phone Number
Oil Purchaser
Original Well Name
OTC Production Unit Number
Production Formations

OCC Form 1003 and OTC Form 320C share the following elements:

Operator Name
Operator Address
OTC Production Unit Number
Plugging Date
Well Name
Lease Legal Description
Reason for Plugging

Current Computer Operating Systems Used by the Agencies

A study into the creation of a joint, centralized system of reporting by the oil and gas industry to the Tax Commission and the Corporation Commission required a review of the current computer operating system used by each agency and a determination of compatibility of the two systems.

A review of the computer operating systems revealed that the Tax Commission gross production tax system is based on "vsam" files using CICS online and batch processing. The system was first put online in 1981 and much of that same system is still in place. The system also uses magnetic tapes recording production history records as reported to the Tax

Commission. The Tax Commission reporting system is based on the lease and its corresponding production unit number (PUN).

The Corporation Commission has a Cobol-based system using "vsam" data files. The information is loaded into the primary system, which is an Oracle-based system. The Corporation Commission reporting system is based on the individual well and its corresponding American Petroleum Institute (API) number.

To accomplish any sharing of data or combined reporting between the two agencies requires a system that would correlate the API number with the PUN. Currently, the two systems have no way to interact because of this lack of correlation.

COMMENTS FROM THE OIL AND GAS INDUSTRY

The Steering Committee requested and received oil and gas industry comments regarding what changes, if any, are desired with respect to requirements to report to the two agencies and its concerns for a central reporting system. Excerpts from these comments are included herein:

- Representatives of the Oklahoma Independent Petroleum Association expressed the following concerns:
 - They are opposed to any proposal that would put an administrative burden on operators of oil and gas wells that are currently not reporting any information to the Tax Commission or the Corporation Commission;
 - The OTC and OCC should internally resolve system communications issues and that resolution should be transparent to the oil and gas industry; and
 - Redundant reports and forms should be reduced and other forms should be eliminated where possible by the implementation of a new system that allows communication and interaction between the agencies.
- Representatives of the Mid-Continent Oil and Gas Association expressed the following concerns:
 - Any change in the present reporting system would require a change in the systems employed by the oil and gas industry. Even if the change were to combine reports filed with the two agencies, the change would cost the industry to change their systems accordingly.
 - That the Tax Commission should eliminate the requirement for a filing of a Form 320C when there is a change in purchaser,

and that the Tax Commission should eliminate the requirement that those tax remitters who are listed as purchasers by the operator must file zero returns on leases for time periods when the purchaser did not purchase any oil or gas.

- A system should be developed to give the oil and gas industry easier access to information available by statute to the public.

ANALYSIS OF CREATION OF A CENTRAL REPORTING SYSTEM

To eliminate any duplication of reporting by the oil and gas industry, the Corporation Commission and the Tax Commission must be able to share information. As stated above, the Tax Commission reporting system is based on the lease and the production unit number (PUN) while the Corporation Commission reporting is based on the individual well and the American Petroleum Institute (API) number. To get the two systems to interact, there must be a table or program created to correlate the API number with the PUN number. An attempt by the two agencies to accomplish this task for tens of thousands of wells would take an enormous amount of personnel hours.

To accomplish this task, it will be necessary to create a database that allows the Tax Commission and the Corporation Commission to trace an API number to the corresponding PUN. It may be possible to complete the database by obtaining information from companies that specialize in storing oil and gas industry data. The information must include the API number and the PUN. The oil and gas industry could be asked to help verify the data or ensure that the database is complete. Once completed, the system would allow the two agencies to assign wells to leases.

The following advantages for the industry and the agencies were identified:

- Even though there would not be a “central database” for reporting, there could be combined reporting once the two systems could interact. Currently, both agencies require registration for new wells (OCC Form 1002A and OTC Form 320A), reporting of a change of operator (OCC Form 1073 and OTC Form 320C), and reporting of a plugging of a well (OCC Form 1003 and OTC Form 320C). These forms could be combined to one form that the industry could file in a web-based electronic filing that would be transmitted to both agencies.
- Further, the ability to share information may allow each agency to eliminate some reporting requirements.

- The new database system could also streamline the filing of incentive rebates with the Tax Commission. Currently, operators must carve out qualifying wells from each lease. Under the new system, the operator would simply report the API number to the Tax Commission, which then could trace it back to the corresponding lease.

RECOMMENDATIONS

THEREFORE, IT IS THE RECOMMENDATION OF THE OKLAHOMA CORPORATION COMMISSION AND THE OKLAHOMA TAX COMMISSION THAT:

- 1. The Tax Commission develop a program to correlate the American Petroleum Institute (API) numbers assigned to individual wells by the Corporation Commission with the Production Unit Numbers (PUN) assigned to individual leases by the Tax Commission;**
- 2. The Corporation Commission provide to the Tax Commission a database of API numbers assigned to individual wells;**
- 3. The Tax Commission contact companies that specialize in the storing of oil and gas industry information to evaluate the feasibility of obtaining or purchasing the necessary data to trace the API number to the corresponding PUN;**
- 4. The oil and gas industry cooperate with the Tax Commission and the Corporation Commission to verify the information in the completed database and ensure that the information is complete. The Tax Commission and the Corporation Commission will pursue all reasonable avenues to minimize any burden on the oil and gas industry;**
- 5. The Tax Commission and the Corporation Commission cooperate to explore means to combine oil and gas industry reports filed with the two agencies, so as to eliminate unnecessary duplicate filing of information, and thereafter maintain that system;**
- 6. The Tax Commission and the Corporation Commission continue their efforts to provide alternative means to file reports or returns electronically, including the use of web-based applications; and**
- 7. The Tax Commission and the Corporation Commission endeavor to make information from the database available to the oil and gas industry and the general public through the Internet.**

